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House Committee on International Relations
Subcommittee on Africa, Global Human Rights, and International Operations
September 20, 2005
2:00 pm
Implementing the Microenterprise Results and Accountability Act of 2004

Good afternoon. I am very grateful for the opportunity to testify today. Chairman Smith, on behalf of Opportunity International and the Microenterprise Coalition, I would like to express our gratitude to you and to the other members of the subcommittee for your important leadership on microfinance on behalf of the poor.

When I was working as a loan officer to poor women in El Salvador in the early 1990's, I never dreamed that by 2003, the Microcredit Summit Campaign would report that over eighty million poor people were working toward self-reliance with the help of microloans--quite a phenomenal number considering that formalized microfinance as we know it only began some three or four decades ago. This is extraordinary success—and now that we have figured out our systems and methodologies, we are poised to reach millions more clients who do not have access to basic financial services and who can transform their lives once they receive them. The results are worth fighting for: increased income resulting in more girl and boy children in school, better housing, more money to pay for health care, a decrease in domestic violence, and the means to care for orphans.

Do you want to let microfinance stagnate now, or do you want to invest in success and finish the job?

When I started working with the Women's Opportunity Fund of Opportunity International in 1992, we were giving out 6000 loans. In the past five years alone, Opportunity has grown by 460% and now has 770,000 loan clients while achieving 2% arrears and full sustainability, reaching 87% women, and providing an average initial loan size, outside Europe, of US\$80. We have also provided insurance products to almost two million poor people. By 2010 we expect to be reaching two million loan clients alone, and many more clients with savings and microinsurance, as well as training in business skills, leadership development, HIV/AIDS, and many other areas.

During the next ten years, Opportunity plans to open 20 to 25 new banks for the poor in order to finance 12.6 million micro-businesses. Our focus for major expansion is Africa, and particularly those countries with a high incidence of HIV/AIDS. Over the next ten years, we plan to build commercial microfinance institutions in 16 African countries, financing 2.8 million micro and small businesses, thus empowering millions of poor women to avoid risky behavior, enabling extended families to care for their orphans, and providing HIV/AIDS prevention and awareness education to those who are most vulnerable to infection.

Opportunity and our sister organizations are ready—ready to stretch, with the help of our private donors and volunteer leadership, to meet the needs of millions of poor families who have no access to financial services, and for whom a microbusiness loan or a safe place to save their money can be life-transforming. Is Congress ready? Is USAID ready? Do you want to throw in the towel, or do you want to invest in success and finish the job?

For years, USAID has been a global leader in microfinance and, in many ways, has been a key driver in bringing capitalism at its best from the American people into some of the most neglected communities on the earth. A vital part of its strategy has been the development of market leaders—including retail microfinance institutions built by organizations such as Opportunity International that provide poor people with direct access to financial services.

Microfinance practitioners have figured it out, we've cracked the code, we now know how to ramp up to reach many more poor families. We are part of a financial sector revolution that is ready to soar. Do you want to let microfinance stagnate now, or do you want to invest in success and finish the job?

Sixty percent of Opportunity's funding comes from private donations. Here with me today are several of our volunteer board members and donors. They are among the over 2000 Americans who, in 2004 alone, generously provided US\$16.6 million in donations, in amounts ranging from two dollars to one million dollars. As well, because of the quality and financial sustainability of our microfinance institutions, Opportunity has been very successful in accessing social investment funds and other capital.

Yet we need USAID moving forward. International and national commercial banks that operate on the basis of a single bottom line are unlikely to sustain commitments to the poor. Quite simply, "capital has no courage."

Opportunity International, on the other hand, measures our success according to a triple bottom line: first, outreach to as many of the poorest people we can reach; second, sustainability; and third and most important, holistic transformation, or client impact.

USAID has, in fact, been a major and valued partner of Opportunity International. Over the past 12 years, USAID has provided over \$70 million in funding to Opportunity International, creating market leaders in such countries as Ghana, Nicaragua, Russia, Serbia, and Montenegro. The results? A \$70 million investment by the American people has leveraged a loan portfolio that today is over \$95 million, providing \$177 million in rotating loans to poor entrepreneurs in just the last year.

I would call that an excellent return on investment. And as an organization founded on business principles, I would suggest that when you have an excellent return and a successful partnership, you build on it.

Organizations such as Opportunity International are an interesting hybrid. We have the heart of a not-for-profit with a social mission, but we have the mind and muscle of a for-profit business. I count among my valued colleagues many talented and dedicated consultants—but for-profit consulting firms simply do not have “skin in the game.”

Opportunity creates banks for the poor—a place where poor people can get services. We fund their startup costs; we manage them; we innovate in products, services, and systems. We hire and fire CEOs; we serve on their boards. We raise grant, equity and debt financing for them. We create economies of scale for them through MIS hardware and software and through professional development of senior management across the globe. We have “skin in the game” in terms of equity and debt -- and in terms of brand reputation.

Despite this track record of success, Opportunity is one of a number of industry leaders that is receiving diminishing funds from USAID. An informal survey of members of the Microenterprise Coalition in May 2004 showed that several world class organizations-- ACCION, FINCA, Freedom from Hunger, ProMujer, Save the Children, and WOCCU-- had shown serious declines in their funding from USAID over the previous two years, and that prospects for the future looked grim. World Vision was holding steady, along with Catholic Relief Services and Opportunity International—and Opportunity’s numbers were strong in the short term only because of a single \$10 million grant for Serbia.

Do you believe it’s important to have retail microfinance--a place, even someplace as nontraditional as an off-road vehicle, where poor people can go to get a loan or deposit their savings? If so, do you want to invest in successful not-for-profit partners, or do you want to abandon them? Do you want to finish the job?

In many of the countries where we seek to work, including in Africa, we have been told by USAID that there are simply no discretionary economic development funds available, including for microfinance. And where such funds do exist, we are often excluded from competing because the awards are given through contracts rather than through grants or cooperative agreements. With our experience and long-term commitment, we are baffled that we are unable even to compete for USAID funds in countries such as Mexico, Nigeria, Honduras, and Rwanda—countries where, all told, we have pledged to bring to the table over \$15 million in private funds.

Will you level the playing field so that organizations with years of experience, private funding to match, and “skin in the game,” can compete fairly for funds?

The Microenterprise Results and Accountability Act of 2004 was intended to address just these kinds of issues. And has it? We recognize that a big ship takes a long time to turn, but we are nevertheless surprised that, nine months after the passage of the legislation, our partners in the field have not reported any change in the kinds of mechanisms or task orders used by the USAID missions. The USAID Office of Microenterprise Development (OMD) did report in February that they will reinstate the valued Implementing Grant Program, or IGP—but not until 2006.

The major effort in compliance from OMD appears to be the creation of a Leader With Associates (LWA) funding mechanism called FIELD-Support. It's a good mechanism and the effort is very much to be lauded—but one \$2 million annual award out of an appropriation of \$200 million is hardly adequate to fill the bill of “emphasizing” the use of not-for-profit implementing partners, according to the law. We understand “emphasize” to imply well over fifty percent, whereas the LWA represents one percent of total USAID funding for microfinance, and ten percent of the total budget for the Office of Microenterprise Development—and other mechanisms that we're aware of are helpful but do not make up the difference. It also remains unclear to the Microenterprise Coalition how the FIELD-Support LWA or any other mechanism announced to date will assist with providing “targeted core support for microfinance and microenterprise networks and other practitioners,” as specified in the law.

Nor does the LWA emphasize support for building retail microfinance institutions that work directly with the poor. Enabling environment and other infrastructure and policy initiatives are worthwhile—but it is simply folly to fund everything except a place where a poor person can get a loan.

USAID has done some groundbreaking work recently in reaching poor women with microfinance, most notably in the Middle East, where their encouragement of poverty-focused group loans resulted in dramatic increases in outreach to women. Yet there is much yet to be done to ensure that microfinance realizes its potential to empower poor women, as many women remain unserved or underserved.

Finally, Opportunity International, through our Lending Hope to Africa campaign, has made a \$25 million commitment to fight HIV/AIDS. USAID helped us to secure a major award from the Office of the Global AIDS Coordinator (OGAC) in the first tranche of the President's Emergency Plan for AIDS Relief (PEPFAR), which has been enormously important in enabling us to use our extensive infrastructure of Trust Bank lending groups in the fight against AIDS. Yet since that first tranche, to our knowledge no other microfinance network has received an award from OGAC's central office.

One of Opportunity's clients in Uganda is Gertrude Ssebunya, who is caring for 14 AIDS orphans in addition to her own three children. The loan, training and support she receives through her Trust Bank lending group have helped her to build a small pharmacy business that allows her to pay school fees, buy uniforms and build a future for her family.

Gertrude and her sisters around the world are ready to work. They are ready to build a life of self-reliance. Are we ready to help them?

Let's invest in a program that transforms lives. Let's finish the job.

Thank you.